



A PHI Company

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*Alisa
Connie
Lisa
Maika*

December 17, 2013

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DEC 19 PM 3 22
DELAWARE P.S.C.

VIA FEDERAL EXPRESS AND ELECTRONIC MAIL

Ms. Alisa C. Bentley, Secretary
Delaware Public Service Commission
861 Silver Lake Boulevard
Cannon Building, Suite 100
Dover, DE 19904

Re: PSC Docket No. 12-546 – Delmarva Power & Light Company's
Proposal to Modify its Gas Tariff pertaining to Main Extensions –
Settlement Agreement

Dear Ms. Bentley:

On October 22, 2013, per Corrected Order No. 8465, in Docket No. 12-546, the Delaware Public Service Commission ("Commission") approved a Settlement Agreement in connection with Delmarva Power & Light Company's ("Delmarva") Gas Base Rate Case (the "Original Settlement Agreement"). Pursuant to the provisions of Paragraph B, subsections 1 through 4, the parties to the Original Settlement Agreement agreed to keep the Docket open for the sole purpose of conducting working group meetings to consider changes proposed by Delmarva to its Natural Gas Tariff.

In connection with the proposed tariff changes, the parties met, discussed the changes, considered alternatives, and, as a result, have executed a settlement agreement setting forth the substance of their agreement ("Tariff Settlement Agreement"). An original and ten (10) copies of the Tariff Settlement Agreement are enclosed and are being submitted to the Commission for its approval. I would ask that you place this matter on the Commission's agenda as soon as reasonably practicable.

Thank you for your assistance. Should you have any questions, please feel free to contact me at the number referenced above.

Respectfully submitted,


Pamela J. Scott

Enclosure

cc: James Geddes, Esquire (w/enclosure)
Regina Iorii, Esquire (w/enclosure)
Kim Robert Scovill, Esquire (w/enclosure)
David Stevenson (w/enclosure)
Robert Collacchi (w/enclosure)
Robert Kitson (w/enclosure)
Bruce Martin (w/enclosure)
Suzanne Topor (w/enclosure)
Connie McDowell (w/enclosure)
Malika Davis (w/enclosure)
Andrea Maucher (w/enclosure)

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF DELAWARE**

IN THE MATTER OF THE APPLICATION OF DELMARVA POWER & LIGHT COMPANY FOR A CHANGE IN NATURAL GAS BASE RATES (FILED DECEMBER 7, 2013)))))))	PSC DOCKET NO. 12-546
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2013 DEC 19 PM 3 22
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DELAWARE P.S.C.

PROPOSED SETTLEMENT AGREEMENT – GAS SERVICE EXTENSION TARIFF CHANGES

This proposed Settlement Agreement (the “Settlement”) is entered into this 17th day of December, 2013, by and among Delmarva Power & Light Company (“Delmarva” or the “Company”), the Delaware Public Service Commission Staff (“Staff”), the Division of the Public Advocate (“DPA”), Hillstream II Property Owners Association (“HPOA”) and The Caesar Rodney Institute (“CRI”) (together, the “Settling Parties” and each individually, a “Party”).

I. INTRODUCTION AND PROCEDURAL BACKGROUND

1. On December 7, 2012, Delmarva filed with the Delaware Public Service Commission (the “Commission”) an application (the “Application”) seeking, among other things, to modify the language of Section XVII of its Natural Gas Tariff to make it easier and more affordable for residential and small business owners to consider natural gas for their energy needs.

2. The Settling Parties executed a settlement agreement to settle most of the issues in this Docket, which the Commission approved on October 22, 2013 per Corrected Order No. 8465. As part of the approved settlement, the Settling Parties agreed that this Docket would remain open for the sole purpose of conducting working

group meetings to consider changes to Section XVII of Delmarva's Natural Gas Tariff, specifically with respect to service extensions for existing residential subdivisions and for non-residential customers for existing mains (Leaf Nos. 27 and 28) as proposed by Delmarva in the Application ("Main Extensions").

3. The Settling Parties further agreed that the working group meetings for Main Extensions would begin no later than September 15, 2013 and be completed on or before December 2, 2013, and that on or before December 16, 2013 the parties would submit to the Commission for its consideration either: (a) mutually acceptable revisions to Section XVII of the Natural Gas Tariff; or (b) any objections or modifications to Delmarva's proposed revisions to Section XVII of the Natural Gas Tariff language.

4. The Settling Parties met several times between September and November 2013 to discuss the Main Extensions issue and have agreed upon a process moving forward and the revision to be made to Section XVII of Delmarva's Natural Gas Tariff.

II. SETTLEMENT PROVISIONS

IT IS HEREBY STIPULATED AND AGREED by Delmarva, Staff, the DPA, HPOA and CRI that they will submit to the Commission for its approval the following terms and conditions:

A. Main Extensions.

5. For residential main extensions for existing homes, the Company will make extensions for existing mains of 100 feet per applicant, without charge. Applicants will be required to provide a \$200 refundable deposit, which will be refunded

when the applicant becomes a customer and connects gas utilization equipment within five years of the date that gas service is first made available to their property. As part of this process, the Company will eliminate the Revenue Test Model which had been used to determine the level of contribution required from new customers to extend gas service to their properties.

6. For residential extensions for existing homes involving an extension of more than 100 feet per applicant, or where a system improvement is required to serve the applicant(s), the determination as to whether Delmarva will proceed with an extension will be based upon the results of a model that employs a discounted cash flow analysis from which the Company will derive an estimate of the cost of the capital expenditure associated with the proposed extension and the net revenues to be derived therefrom (the "DCF Model"). The DCF Model will assume that new customers to be served by this extension are "phased-in" during the first five (5) years of the extension project, as follows: (1) the cumulative phase-in rates for more than five (5) applicants are as follows: Year 1 – 33%; Year 2 – 70%; Year 3 - 85%; Year 4 – 89%; and Year 5 – 100%; and (2) if there are five (5) or fewer customers, all connections will be assumed to occur in Year 1. The DCF Model will also assume that 85% of the other homes along the main extension will convert to natural gas service within twenty (20) years. The applicant phase-in rates and the conversion rate outlined above may be adjusted with Commission approval. Using the DCF Model, the Company will discount the revenues associated with the proposed new main extension to a present value representative of the lesser of the cost of the Company's prospective after-tax long term debt or equity.

The discount rate will be adjusted annually based on the Company's current after-tax long term debt or equity rate. If the net present value is zero or greater, no contribution will be required from the applicant. If the net present value is negative, the excess cost will be required as a contribution by the applicant. The tax rate will be adjusted annually based upon rates established by current tax laws. Payment will be required in advance of any work being performed. Variables in the DCF Model that will change with each extension project are: the estimated construction costs of the extension project; the number of homes with respect to the number of applicants and the number of homes that could be served by the main extension; and the annual non-fuel revenue. The DCF Model is attached hereto as Exhibit "A" and is expressly made a part hereof.

7. For non-residential extensions of existing mains, for the General Gas Sales Service Classification only, the Company will provide 100 feet of extension without charge; thereafter, the currently applicable three times the estimated revenue test will be used to determine the economics of the extension and the required contribution from the applicant.

8. A summary report of the main extension projects completed pursuant to this process as described in the preceding paragraphs 5 -7 will be filed with the Commission and the Public Advocate annually, within one hundred twenty (120) days after December 31 of each year. The summary report shall include the following information for each extension project started and/or completed during the previous calendar year:

a. Main Extension Project Identification Number;

b. Main Extension Project Location (Community/business name and location);

c. Completion/In-service Date for Main Extension Project;

d. Number of Customers taking service in first five (5) years who have paid the required deposit;

e. Number of other homes/businesses located along the Main Extension that could become new customers;

f. Total Main Extension Project Footage;

g. Total Cost of the Main Extension Project;

h. Estimated Revenue for Main Extension Projects, by Year, for Years One through Five;

In addition, if requested by a Party, Delmarva will run the DCF model for a particular Main Extension Project as defined in Paragraph 6 hereof.

9. The Company will undertake a marketing campaign to make residents aware of the change in the tariff language and to promote the conversion to gas. The Company has maintained a list of individual customers and civic associations interested in converting to natural gas and will contact those customers and civic associations. Prioritization of two (2) or more competing projects with identical application dates will be based upon the most applicants per foot of pipe required.

10. The Settling Parties agree that within three (3) years from the date of issuance of a final non-appealable order by the Commission approving this Settlement Agreement, the Company will update the Commission and the Public Advocate as to the

status of conversions since the implementation of the revised tariff provisions so as to allow consideration of what, if any, further refinements need to be made to the Main Extensions provisions.

11. The revised tariff leafs incorporating the changes outlined in this Settlement Agreement are attached hereto as Exhibit "B" and made a part hereof.

B. Additional Provisions

12. This Settlement is the product of extensive negotiation, and reflects a mutual balancing of various issues and positions. It is therefore a condition of the Settlement that the Commission approves it in its entirety without modification or condition. If this Settlement is not approved in its entirety, this Agreement shall become null and void.

13. This Settlement shall not set a precedent and no Settling Party shall be prohibited from arguing a different policy or position before the Commission in any future proceeding. The purpose of this Settlement is to provide just and reasonable rates for Delmarva's customers and the Settling Parties believe that this Settlement accomplishes this goal. In addition, the Settling Parties believe that the Settlement is in the public interest because, among other things, it avoids additional litigation costs.

14. The terms of this Settlement will remain in effect until changed by an order of the Commission, and the Commission shall retain jurisdiction over this Settlement. All statutory procedures and remedies shall be available to the Parties to ensure that rates are just and reasonable, including without limitation 26 *Del. C.* §§304, 309-311.

15. This Settlement may be executed in counterparts by any of the signatories hereto and transmission of an original signature by facsimile or email shall constitute valid execution of this Settlement, provided that the original signature of each Settling Party is delivered to the Commission's offices before its consideration of this Agreement. Copies of this Settlement executed in counterpart shall constitute one agreement. Each signatory executing this Settlement warrants and represents that he or she has been duly authorized and empowered to execute this Settlement on behalf of the respective Settling Party.

{Signatures appear on the following page}

CONFIDENTIAL - FOR SETTLEMENT PURPOSES ONLY

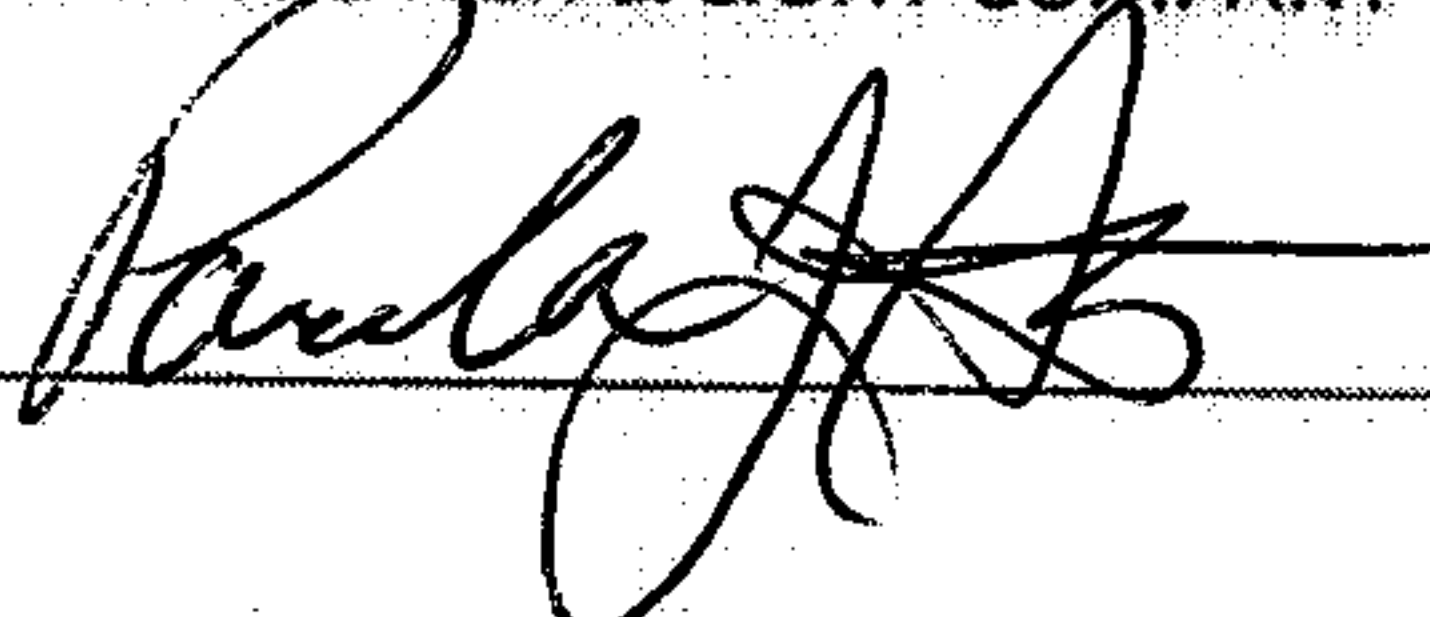
or she has been duly authorized and empowered to execute this Settlement on behalf of the respective Settling Party.

IN WITNESS WHEREOF, intending to bind themselves and their successors and assigns, the undersigned Settling Parties have caused this Settlement to be signed by their duly-authorized representatives.

DELAWARE PUBLIC SERVICE COMMISSION STAFF

By: Connie S. McParrall Date: 12/16/13

DELMARVA POWER & LIGHT COMPANY

By:  Date: 12/17/13

THE DIVISION OF THE PUBLIC ADVOCATE

By:  Date: 12/17/13

THE CAESAR RODNEY INSTITUTE

By: _____ Date: _____

THE HILLSTREAM II PROPERTY OWNERS ASSOCIATION

By: _____ Date: _____

THE DIVISION OF THE PUBLIC ADVOCATE

By: _____

Date: _____

THE CAESAR RODNEY INSTITUTE

By: David T. Stevenson

Date: 12/16/13

THE HILLSTREAM II PROPERTY OWNERS ASSOCIATION

By: _____

Date: _____

CONFIDENTIAL – FOR SETTLEMENT PURPOSES ONLY

By: _____

Date: _____

THE DIVISION OF THE PUBLIC ADVOCATE

By: _____

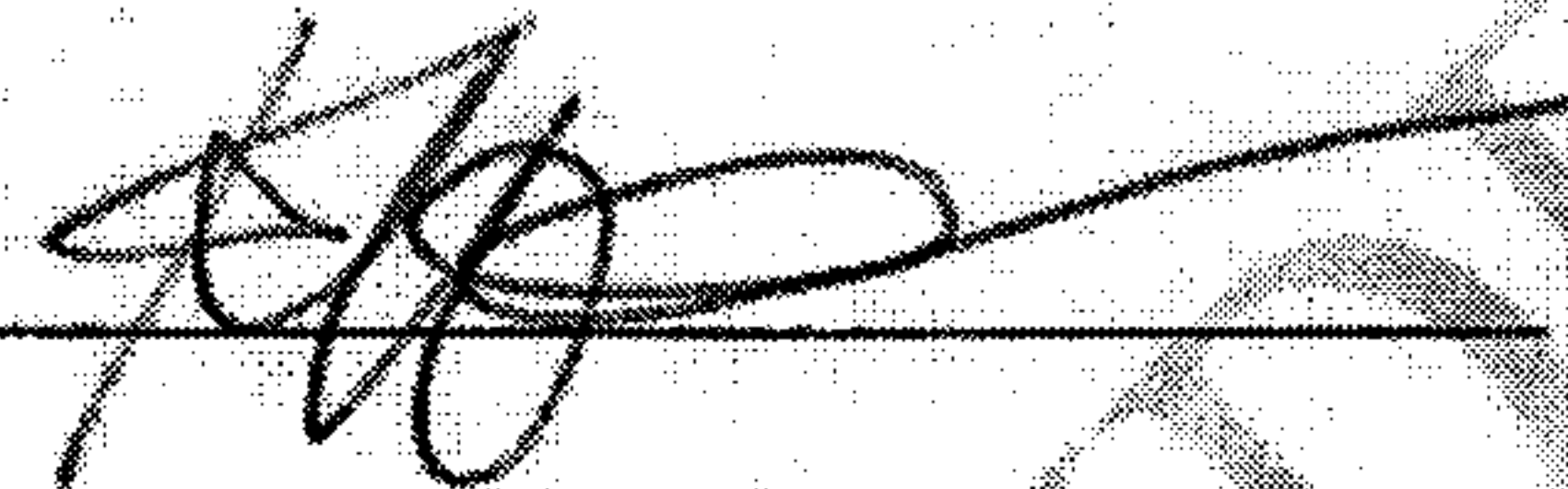
Date: _____

THE CAESAR RODNEY INSTITUTE

By: _____

Date: _____

THE HILLSTREAM II PROPERTY OWNERS ASSOCIATION

By:  _____

Date: 12/16/13

Delmarva Power & Light
Net Present Value — Main Extension

Operational Costs	Value	Blue font indicates data entry	
Project Costs	\$ 150,000	CIAC = \$0	
Applicants	11	27% of total homes	
Homes Along New Main	41	85% after 20 years	
Non-Applicant Conversion Rate	5.00%	AAR increases by 5% every 5 years => 5.00%	
Average Annual Revenue (AAR)	\$494		
Tax Rate	17.10%		
Lesser of Cost of Debt or Equity	4.91%		

Gray cells will be calculated for you and do not require any entry.

Years in Service	Raw Meter Count	Est. Number of Meters in Project	Expenses		Income		Cash flow	Cumulative cash flow
			Main costs	Total	Benefit of Project to Existing Customers by project	Non-Fuel Revenue generated by project		
1	3.63	3	\$150,000	\$150,000		\$ 1,482	\$148,518	\$148,518
2	7.70	7		\$0		\$ 3,458	\$3,458	\$145,060
3	9.35	9		\$0		\$ 4,446	\$4,446	\$140,614
4	9.79	9		\$0		\$ 4,446	\$4,446	\$136,168
5	11.00	11		\$0		\$ 5,434	\$5,434	\$130,734
6	12.50	12		\$0		\$ 5,928	\$5,928	\$124,806
7	14.00	14		\$0		\$ 7,262	\$7,262	\$117,544
8	15.50	15		\$0		\$ 7,781	\$7,781	\$109,764
9	17.00	17		\$0		\$ 8,818	\$8,818	\$100,946
10	18.50	18		\$0		\$ 9,337	\$9,337	\$91,609
11	20.00	20		\$0		\$ 10,374	\$10,374	\$81,235
12	21.50	21		\$0		\$ 11,437	\$11,437	\$69,798
13	23.00	23		\$0		\$ 12,527	\$12,527	\$57,271
14	24.50	24		\$0		\$ 13,071	\$13,071	\$44,200
15	26.00	26		\$0		\$ 14,161	\$14,161	\$30,040
16	27.50	27		\$0		\$ 14,705	\$14,705	\$15,334
17	29.00	29		\$0		\$ 16,584	\$16,584	\$1,250
18	30.50	30		\$0		\$ 17,156	\$17,156	\$18,406
19	32.00	32		\$0		\$ 18,300	\$18,300	\$36,706
20	33.50	33		\$0		\$ 18,872	\$18,872	\$55,577
21	35.00	35		\$0		\$ 20,015	\$20,015	\$75,592
22	36.50	36		\$0		\$ 20,587	\$20,587	\$96,180
23	38.00	38		\$0		\$ 21,731	\$21,731	\$117,911
24	39.50	39		\$0		\$ 22,303	\$22,303	\$140,213
25	41.00	41		\$0		\$ 23,447	\$23,447	\$163,660
								\$163,660
								NPV = \$4,743
								CIAC = \$0

Z:\Services\GeneralCounsel\0882_legal\LEGAL\PJS\Delaware PSC\Gas Base Rate Case 2012\Tariff (Main Extension) Working Group\Exhibit A to Settlement Agreement - DCF Model.xlsx]NPV Model

RULES AND REGULATIONS

SECTION XVII - EXTENSIONS

A. General

Extensions to the Company's gas system shall be provided, owned and maintained under the terms and conditions herein enumerated.

Extensions, as used in this section, refer to gas mains and associated materials that must be constructed along public streets, roads and highways, or on private property from the Company's existing gas system to the service.

Extensions shall be designed according to accepted industry practices to provide adequate service and shall be installed in accordance with the rules and regulations of the Commission. Modifications to the Company's design, requested by the Requester, shall be made when such modifications are acceptable to the Company in its sole judgment.

Where a Requester requests the Company to install facilities which are more costly than those proposed to be furnished by the Company, the Requester shall pay the Company the difference in cost between the requested installation and that deemed necessary by the Company.

B. Residential Extensions - New Developments

1. If the estimated investment in the extension exceeds five (5) times the related estimated annual net base revenue, excluding all fuel costs ("Estimated Revenue") from Customers to be initially served from the extension, the Applicant shall provide a financial guarantee in accordance with Section XVII-H. This financial guarantee may be waived if the amount is less than \$50.

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2. For the purpose of definition, those Customers to be initially served shall include houses or multiple occupancy buildings under construction at the time the contract for the extension is signed. As additional facilities are needed to serve additional Customers, the Applicant may be required to make additional financial guarantees or may receive a refund accordingly.

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C. Residential Extensions - Existing Homes – 100 feet per ApplicantSubdivisions

1. ~~The procedure used to determine whether a Contribution in Aid of Construction ("CIAC") including all applicable taxes will be required from Applicants will be on file with and approved by the Commission. The CIAC may be waived if the amount is less than \$50.~~

2. Applicants included in the procedure must provide a Refundable Qualifying Deposit ("RQD") of \$200. The RQD will be refunded to the Applicant if gas heatingutilization equipment is installed and connected within five (5) years of the date that gas service is first available to that Applicant. If gas utilizationheating equipment is not installed and connected within five (5) years of the date that gas service is first available, the RQD will not be refunded, but will be applied as a Contribution in Aid of Construction ("CIAC").

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2. The Company will make extensions to existing mains of one hundred (100) feet per Applicant without charge. In the event of multiple Applicants, where no system improvements are required to serve the Applicants, the extension without charge will be 100 feet multiplied by the number of Applicants.

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D. Residential Extensions – Existing Home – more than 100 feet per Applicant or system improvement requiredLess than 500 Feet

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~~If the estimated investment in the extension exceeds five (5) times the Estimated Revenue, each Applicant shall provide a CIAC including all applicable taxes for the excess amount. This CIAC may be waived if the amount is less than \$50. If any Applicant is not connected to Delmarva's system within~~

one year of the time that gas service is available to an Applicant, that Applicant must pay the RQD to the Company. Such payment shall be credited as a CIAC.

Order No. 6327-

Filed: December 9, 2003

Docket No. 12-54603-127

Effective with Usage on or after Decemb

Filed in compliance with Commission Order No. 6327 in Docket No. 03-127

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1. Applicant(s) included in this process must provide a RQD of \$200. The RQD will be refunded to the Applicant(s) if gas utilization equipment is installed and connected within five (5) years of the date that gas service is first available to that Applicant. If gas utilization equipment is not installed and connected within the five (5) year timeframe, the RQD will not be refunded but will be applied as a CIAC.

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2. The Company will make extensions to existing mains using a model based upon a discounted cash flow (DCF) analysis. The DCF Model will evaluate main extensions based upon the estimated cost of the capital expenditures associated with the proposed extension and an estimate of the net revenue to be derived from the original Applicants over the first five (5) years and expected additional new customers who could be served by the main extension. The DCF Model will be on file with the Commission. Applicant(s) shall provide a non-refundable CIAC including all applicable taxes for the excess amount equivalent to the negative net present value of the project prior to the main extension being installed. The CIAC may be waived if the amount is less than the \$200 RQD per applicant.

RULES AND REGULATIONS

SECTION XVII - EXTENSIONS

E. Non Residential Extensions – For General Gas Sales Service Classification Customers Only

The Company will make extensions to existing mains of one hundred (100) feet per Applicant without charge. Beyond the first 100 feet, if the estimated investment in the extension exceeds three (3) times the Estimated Revenue, the Applicant will be required to provide a CIAC including all applicable taxes for the excess amount. This CIAC may be waived if the amount is less than \$5200.

When a line extension and service are both required, the Estimated Revenue shall be compared to the total estimated investment in both the line extension and the service, excluding the first 100 feet of main or service.

F. Non Residential Extensions – All Non-Residential Service Classifications Other Than General Gas Sales

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If the estimated investment in the extension exceeds three (3) times the Estimated Revenue, the Applicant will be required to provide a CIAC including all applicable taxes for the excess amount. This CIAC may be waived if the amount is less than \$50.

When a line extension and service are both required, the Estimated Revenue shall be compared to the total estimated investment in both the line extension and the service.

GF. Non Residential Dual Fuel Extensions

All Non-Residential Customers who desire service and who have the ability to continuously use an alternate fuel must sign an Application that holds the Customer liable for all estimated costs not covered by actual non-fuel revenues received and retained by the Company.

When a line extension and service are both required, the Estimated Revenue shall be compared to the total estimated investment in both the line extension and the service.

HG. Infrastructure Improvements

The Company may make investments in infrastructure for reasons of timing, convenience, reliability, safety or other reasons as may be appropriate, independent of extension or service requests from Customers. Investments in infrastructure will be undertaken consistent with engineering planning studies and financial analysis. Infrastructure is defined as gas transmission and distribution systems necessary to increase pipeline flow capacity and/or pressures, system reliability or service availability.

The intent of the preceding paragraph is not to avoid the extension rules contained in this Section, ~~nor~~ the service installation rules contained in Section VII.

IH. Financial Guarantees

Financial Guarantees may be made by payment, deposit, Letter of Credit or other financial instruments at the Company's discretion.

Should the Applicant provide a deposit it will be returned to the Applicant (without interest) in an amount equal to five (5) times the estimated revenue, excluding all fuel cost, from new Customers as each new Customer completes its permanent service connection directly from the extension for which the deposit was required. In no case shall the total refund be greater than the Applicant's deposit. Any portion of the deposit remaining unrefunded after five (5) years from the date the Company is first ready to render service from the extension shall be retained by the Company and credited as a CIAC.

Should the Applicant provide a Letter of Credit or other Financial Instrument, the estimated revenue attributable to the extension shall be examined prior to the Letter's or other Instrument's

expiration. The Company may either draw on the Letter of Credit or Instrument or require that it be renewed, where a continued financial guarantee is still required. Such draw shall then be considered a deposit under the above section. The Company shall also have the right to require a Financial Guarantee where it determines that the recovery of the investment is questionable.

Order No. 6327	Filed: December 9, 2003
Docket No. 03-127	Effective with Usage on or after December 10, 2003

Filed in compliance with Commission Order No. ~~6327~~ in Docket No. ~~03-127~~

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